

**REPORT OF THE AUDIT OF THE  
CARTER COUNTY  
SHERIFF'S SETTLEMENT - 2005 TAXES**

**May 1, 2006**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**105 SEA HERO ROAD, SUITE 2  
FRANKFORT, KY 40601-5404  
TELEPHONE 502.573.0050  
FACSIMILE 502.573.0067**



**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**CARTER COUNTY**  
**SHERIFF'S SETTLEMENT - 2005 TAXES**

**May 1, 2006**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2005 Taxes for Carter County Sheriff as of May 1, 2006. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$4,684,516 for the districts for 2005 taxes, retaining commissions of \$190,263 to operate the Sheriff's office. The Sheriff distributed taxes of \$4,478,515 to the districts for 2005 Taxes. No taxes are due to the districts from the Sheriff and no refunds are due to the Sheriff from the taxing districts.

**Report Comment:**

- The Sheriff's Office Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities or bonds.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Ernie Fletcher, Governor

John R. Farris, Secretary

Finance and Administration Cabinet

Honorable Charles Wallace, Carter County Judge/Executive

Honorable M. Kevin McDavid, Carter County Sheriff

Members of the Carter County Fiscal Court

Independent Auditor's Report

We have audited the Carter County Sheriff's Settlement - 2005 Taxes as of May 1, 2006. This tax settlement is the responsibility of the Carter County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Carter County Sheriff's taxes charged, credited, and paid as of May 1, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated June 21, 2006, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John R. Farris, Secretary  
Finance and Administration Cabinet  
Honorable Charles Wallace, Carter County Judge/Executive  
Honorable M. Kevin McDavid, Carter County Sheriff  
Members of the Carter County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
June 21, 2006



CARTER COUNTY  
M. KEVIN MCDAVID, SHERIFF  
SHERIFF'S SETTLEMENT - 2005 TAXES

May 1, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 384,210	\$ 719,022	\$ 2,189,999	\$ 719,022
Tangible Personal Property	33,145	57,605	167,403	121,060
Intangible Personal Property				43,864
Fire Protection	4,412			
Increases Through Exonerations	177	331	1,008	331
Franchise Corporation	56,780	100,393	295,115	
Additional Billings	318	595	1,814	627
Limestone, Sand, and Mineral Reserves	1,043	1,952	5,945	1,952
Bank Franchises	66,766			
Penalties	4,573	8,455	25,676	8,923
Adjusted to Sheriff's Receipt	(95)	56	124	(26)
Gross Chargeable to Sheriff	<u>551,329</u>	<u>888,409</u>	<u>2,687,084</u>	<u>895,753</u>
<u>Credits</u>				
Exonerations	8,575	16,008	48,739	15,917
Discounts	6,767	9,984	30,297	11,731
Delinquents:				
Real Estate	15,288	28,450	86,653	28,450
Tangible Personal Property	746	1,296	3,766	1,847
Intangible Personal Property				335
Uncollected Franchise	<u>2,918</u>	<u>5,155</u>	<u>15,137</u>	
Total Credits	<u>34,294</u>	<u>60,893</u>	<u>184,592</u>	<u>58,280</u>
Taxes Collected	517,035	827,516	2,502,492	837,473
Less: Commissions *	<u>22,261</u>	<u>34,024</u>	<u>98,098</u>	<u>35,880</u>
Taxes Due	494,774	793,492	2,404,394	801,593
Taxes Paid	493,336	790,864	2,396,544	797,771
Refunds (Current and Prior Year)	<u>1,438</u>	<u>2,628</u>	<u>7,850</u>	<u>3,822</u>
Due Districts or (Refund Due Sheriff) as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of this financial statement.

CARTER COUNTY  
M. KEVIN MCDAVID, SHERIFF  
SHERIFF'S SETTLEMENT - 2005 TAXES  
May 1, 2006  
(Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	1,713,928
4% on	\$	458,096
3.92% on	\$	2,502,492

CARTER COUNTY  
NOTES TO FINANCIAL STATEMENT

May 1, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue that are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

CARTER COUNTY  
NOTES TO FINANCIAL STATEMENT  
May 1, 2006  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of May 1, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 12, 2005 through May 1, 2006.

Note 4. Interest Income

The Carter County Sheriff earned \$1,647 as interest income on 2005 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Carter County Sheriff collected \$35,157 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Carter County Sheriff collected \$1,521 of advertising costs and \$4,220 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

COMMENT AND RECOMMENDATION



CARTER COUNTY  
M. KEVIN MCDAVID, SHERIFF  
COMMENT AND RECOMMENDATION

As of May 1, 2006

INTERNAL CONTROL - REPORTABLE CONDITION:

The Sheriff's Office Lacks Adequate Segregation Of Duties

We conclude the internal control structure lacks a proper segregation of duties. There is a limited staff size, which prevents adequate division of responsibilities. The Sheriff has statutory authority to assume the role as custodian of monetary assets as well as recorder of transactions and preparer of financial statements. In addition, management has considered additional costs when setting total employee salary limitations, and has decided to limit the number of personnel, and therefore accept the risk for a lack of adequate segregation of duties.

We suggest the following compensating controls that would help to offset the lack of adequate segregation of duties:

- Cash periodically recounted and deposited by the Sheriff
- Periodic reconciliation of reports to source documents and cash ledgers by the Sheriff
- The Sheriff or someone independent of the Sheriff's office prepares bank reconciliations

*Sheriff's Response:*

*None.*

INTERNAL CONTROL - MATERIAL WEAKNESS:

None.

PRIOR YEAR:

The Sheriff's Office Lacks Adequate Segregation Of Duties

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Charles Wallace, Carter County Judge/Executive  
Honorable M. Kevin McDavid, Carter County Sheriff  
Members of the Carter County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Carter County Sheriff's Settlement - 2005 Taxes as of May 1, 2006, and have issued our report thereon dated June 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Carter County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Carter County Sheriff's Settlement - 2005 Taxes as of May 1, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
June 21, 2006

